Prince Edward Island
STATISTICS

Provincial Treasury

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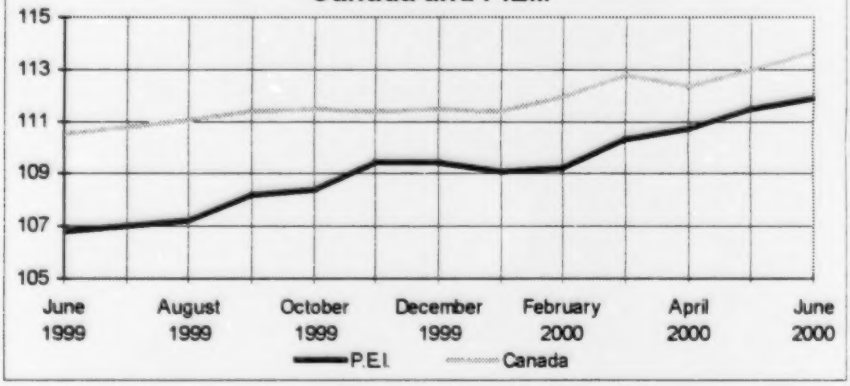
A COMMENTARY ON RECENT CHANGES IN THE P.E.I. CONSUMER PRICE INDEX

July 2000

Since September 1999 the All-Items Consumer Price Index (CPI) for Canada began to increase sharply, and on Prince Edward Island the index rose faster than the national average. Between September 1999 and June 2000 prices on the Island increased by 3.4 percent, while nationally prices rose by 2.1 percent. This reversed the trend since 1996, when increases in the provincial CPI have been very modest, averaging 0.6 percent, and have been less than the national rate of increase.

Three factors are responsible for the recent upturn in increases in the CPI on Prince Edward Island: first, oil prices have been increasing significantly; second, heating oil and gasoline carry a larger weight in the energy component of the CPI basket for Prince Edward Island than in other provinces and this is a major factor; and third, price regulation on Prince Edward Island has affected the timing and degree of energy price increases here.

Diagram 1
ALL-ITEMS INDEX
Canada and P.E.I.



As indicated in Diagram 1, the All-Items Consumer Price Indexes for Canada and Prince Edward Island have moved upwards following a long period of subdued conditions. In June 2000 the index for Prince Edward Island was 111.9, an increase of 4.8 percent from the previous year. This was the largest increase for the province since

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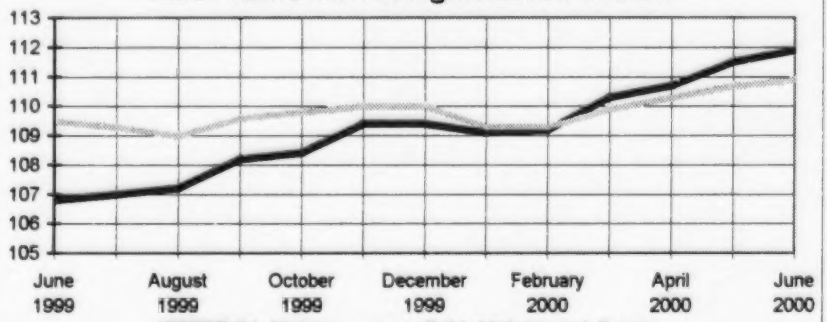
December 1991. By comparison, the Canadian index reached 113.7 in June, an increase of 2.9 percent over the previous year.

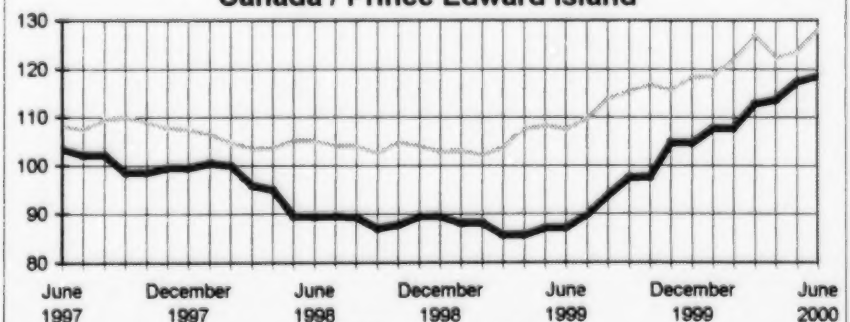
Diagram 2 compares the trends in the All-Items Index and All-Items, Excluding Energy, Index for Prince Edward Island. While the All-Items Index rose by 4.8 percent, the energy-excluded index rose reached 110.9 in June 2000, an increase of only 1.3 percent over last year. This indicates that the increase in the provincial CPI during that period from non-energy factors remained modest.

Diagram 2
P.E.I. ALL-ITEMS INDEX and
ALL-ITEMS excluding ENERGY INDEX



As Diagram 3 illustrates, the P.E.I. Energy Index has been consistently lower than the national index. From June 1997 to April 1999 the gap between the provincial and national Energy Index increased significantly and the index for Prince Edward Island was

Diagram 3
ENERGY INDEX
Canada / Prince Edward Island



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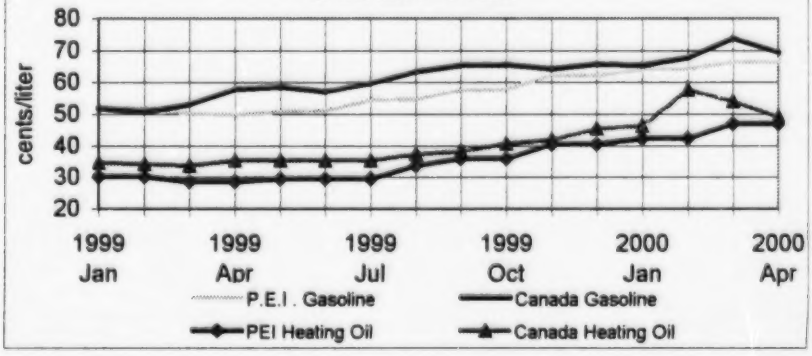
22 points lower than the national average by April 1999. At that time the price of gasoline on Prince Edward Island was $0.50 per litre, while the average price per litre in the rest of Atlantic Canada stood at $0.58. However, between June 1999 and June 2000, Islanders have seen energy prices increase by 35.9 percent, while national energy prices rose by 19.3 percent.

On Prince Edward Island the major items in the energy component of the CPI basket are gasoline and heating oil. Gasoline and fuel oil account for 5.3 percent and 3.2 percent, respectively, of the Island CPI basket. In Canada these two items make up 3.9 percent and 0.6 percent, respectively, while natural gas amounts to 1.2 percent of the consumption basket. Between January 1999 and June 2000 heating oil prices on Prince Edward Island rose by 54.5 percent, while natural gas prices in the rest of Canada rose by 14.0 percent during the same period. This was another factor affecting our relative situation.

Diagram 4
AVERAGE ENERGY PRICES
CANADA - P.E.I.



Although energy prices have been on the increase, prices on P.E.I. have stayed below the national average (see Diagram 4). Between January 1999 and April 2000 the price per litre of regular gasoline rose 28.8 percent to $0.67, while nationally the price rose by 34 percent to $0.69. In the case of heating oil, the provincial price rose by 54.5 percent to $0.47 per litre, while nationally the price increased by 41.2 percent to $0.49 during the same period.

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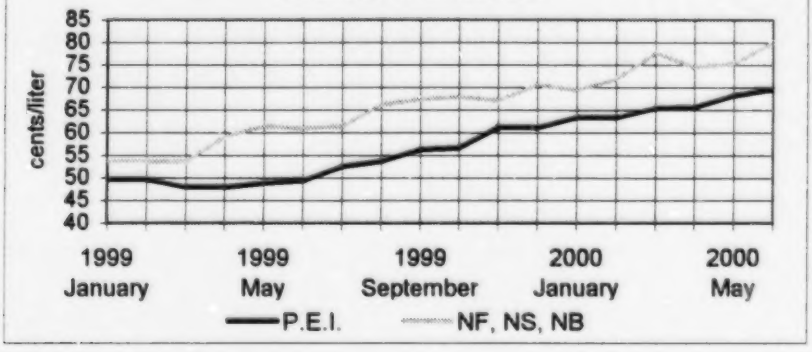
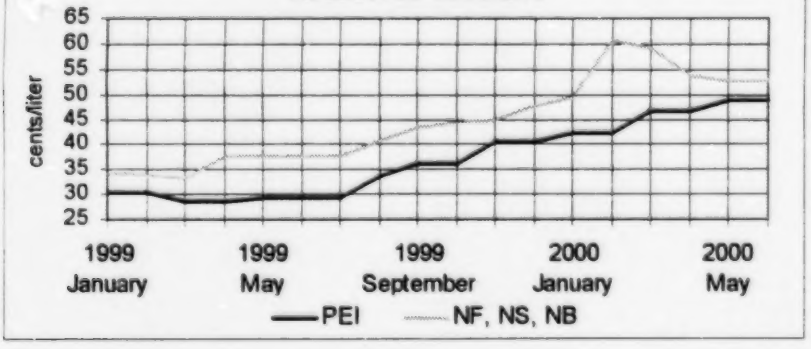
Diagram 5
AVERAGE REGULAR GASOLINE PRICES
ATLANTIC CANADA



Although gasoline prices in Atlantic Canada have been rising steadily, Diagram 5 shows that the upward trend for Prince Edward Island has been smoothed by price regulation. In January 1999 a litre of regular gasoline on Prince Edward Island cost $0.50, while the average price in the other Atlantic provinces was $0.54 per litre. By June 2000, the price of gasoline on the Island had increased by 40 percent to $0.70 per litre, while the average price in the other Atlantic provinces increased by 31 percent to $0.80 per litre.

Diagram 6
AVERAGE HEATING OIL PRICES
ATLANTIC CANADA



The trend in heating oil prices was also up in Atlantic Canada, and, as Diagram 6 shows, increases on Prince Edward Island were dampened by price regulation. Price increases started in July 1999 at which time a litre of heating oil cost $0.30 per litre on

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Prince Edward Island, while the same litre cost $0.38 in the other Atlantic provinces. By June 2000, the price per litre had risen 65.8 percent to reach $0.49 on the Island, while the average price in the other Atlantic provinces rose by 40 percent to reach $0.53 per litre. Declining heating oil prices in the other Atlantic provinces, coupled with continuing moderate price increases on the Island, brought the price more in line with those in the region.

Thus it can be seen that the recent increase in the CPI for Prince Edward Island is directly related to increased prices of gasoline and heating oil. For the Island, petroleum product prices were exceptionally low in the summer of 1999 and the subsequent increase that occurred raised the overall CPI by a greater degree than in the rest of Canada.